

IWIF is different. Just as it should be.



Business White Paper
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The Injured Workers' Insurance Fund and its role in Maryland's workers' compensation insurance marketplace have been the subject of considerable public discussion recently. The intent of this White Paper is to clarify IWIF's current role, correct misinformation, and dispel any confusion about the organization that provides workers' compensation protection to approximately 400,000 Maryland workers.

Most of the confusion about IWIF revolves around a basic question:

Is IWIF a state agency or should IWIF be treated as a private insurer?

The answer to this question is simple. IWIF has been designed to be different – and with good reason. In this White Paper, we explain why:

- IWIF serves a unique role as a self-supporting insurance trust with social responsibility to Maryland employers and their employees.
- No other insurer bears IWIF's responsibility of assuring access to workers' compensation insurance at a fair price for Maryland employers.
- IWIF, alone among workers' compensation insurers, has an unbreakable commitment to serving the Maryland marketplace.
- With the encouragement and endorsement of the legislature, IWIF has evolved from a state agency to its present form as a unique hybrid between the public and private sectors.
- State funds such as IWIF perform an invaluable role in maintaining a competitive insurance market.
- IWIF is well managed, financially sound, and fully competitive.
- IWIF policyholders and agents give IWIF high marks for service.
- Maryland's injured workers count on IWIF and receive fair, dependable, and timely service.
- Without the cost-containing influence of IWIF, Maryland employers could pay more for their mandated workers' compensation coverage.
- Some private insurers are seeking to curb the competitiveness and effectiveness of IWIF for their own gain.
- IWIF contributes to Maryland's economic competitiveness.

Since 1914, IWIF has performed a special role in Maryland.

FACT

The first sentence of IWIF's mission statement is "to ensure that workers' compensation insurance is *available at a fair market price to all* Maryland employers."

Maryland's legislature created IWIF in 1914 to provide a stable source of workers' compensation insurance coverage. Established with the original statutes that created Maryland's workers' compensation system, IWIF was created to protect Maryland employers from underwriting uncertainties by making it possible to have continuing, assured availability of workers' compensation coverage on a not-for-profit basis. IWIF's mission and responsibility are inextricably linked to Maryland.

The first sentence of IWIF's mission statement defines its responsibility "to ensure that workers' compensation insurance is *available* at a *fair market price* to *all* Maryland employers." The words "available," "fair market price," and "all" are italicized here because they define the very essence of the difference between IWIF and other carriers:

- No other insurer serving Maryland shares IWIF's fundamental commitment to insurance *access*.
- No other insurer is mandated to deliver its product at a fair market price.
- No other workers' compensation insurer has the singular and immutable responsibility of serving *Maryland*.

IWIF is clearly different from other insurance carriers with which it competes. Unlike private insurers, IWIF:

- is a self-supporting insurance trust fund operating with a social purpose and funded entirely by premiums and investment income
- provides coverage to all who apply regardless of the company's size or past claim experience. Private insurers can reject applicants who present undesirable underwriting risks.
- has no underwriting profit incentives other than to ensure that it remains financially sound. Private insurers active in Maryland include public companies focused on generating profits for their investors.

IWIF's changing status during the past nine decades

A quick review of IWIF's history further defines IWIF's role in the Maryland marketplace. Originally known as the State Accident Fund, IWIF was created as an integral component of Maryland's first workers' compensation statutes to insure employers who could not obtain coverage from private insurance carriers (commonly referred to as the residual market) or who chose not to obtain coverage from private carriers. In 1941, the organization began a decades-long process that slowly transformed it from being a state agency. In that year, the organization was made independent of the Maryland Workers' Compensation Commission. In 1988, IWIF was removed from the state's Department of Personnel, which had been responsible for administrative oversight, and it became an independent unit under the Executive branch of state government.

In the late 1980s, when Maryland's workers' compensation system was undergoing major reform in the state legislature, a Task Force to study the State Accident Fund described IWIF as one of the least known and least appreciated segments of Maryland's workers' compensation system. To address that situation, the Task Force recommended – and the state legislature enacted – a number of major changes that took effect in 1990:

- The name was changed from the State Accident Fund to the Injured Workers' Insurance Fund – IWIF, to signal its growing separation from the state.
- The legislature charged IWIF's leadership with developing a marketing plan that would increase awareness of IWIF in the marketplace, and enable it to compete effectively with private insurers.
- IWIF employees were removed from the state's classified service.
- IWIF was directed to create a compensation and pay-for-performance program designed to attract and retain qualified insurance professionals and thereby ensure the delivery of quality customer service. (It is important to note that each year IWIF's Board of Directors reviews and approves, with the advice of an independent consultant, IWIF's salary structure to ensure that it is comparable to equally sized private insurance companies.)

FACT

IWIF makes significant and unique contributions to Maryland's workers' compensation system and its economy.

In 1994, to further separate IWIF from the perception of being a state agency, the Maryland Attorney General's office ceased to provide IWIF with legal counsel, allowing IWIF to secure its own representation. Most recently, in the 2000 session, the legislature further affirmed IWIF's unique role as a hybrid between the public and private sectors with actions that:

- Removed IWIF from compliance with the state's open meetings law, allowing IWIF to maintain the confidentiality of its competitive strategies
- Eliminated the State Treasurer's role as a custodian for IWIF
- Subjected IWIF to a financial audit conducted by the Maryland Insurance Administration
- Required IWIF to become a member of the Property and Casualty Insurance Guaranty Corporation, in which all private insurers participate. The guaranty fund ensures that claims will be paid should an insurance carrier fail financially.
- Added two additional members to IWIF's Board of Directors.

Today, owing to the Governor's power to appoint IWIF's 9-person board, IWIF remains an independent unit under the Executive branch of state government. IWIF is not subject to any law that affects Maryland governmental units or agencies except *the public records act, the tort claims act, public ethics law, and the whistleblowers' law*.

After an extensive review in 1999, there was a clear message: IWIF makes significant and unique contributions to Maryland's workers' compensation system and its economy.

IWIF is not a state agency.

With the support and endorsement of the state legislature, IWIF has evolved far beyond its origins as a state agency.

IWIF is not funded through the state's budget. Additionally, and unlike state agencies, IWIF is subject to stringent external financial reviews to ensure financial solvency and maintain the public's confidence. In the past year alone, IWIF underwent:

- A financial audit by Arthur Andersen, LLP.
- A fiscal compliance audit and market conduct examination by the Office of Legislative Audits. Both lasted approximately six months.
- An analysis of IWIF's reserves conducted independently by a Fellow of the Casualty Actuarial Society employed by Deloitte and Touche, LLP.

IWIF is not a typical insurance company either.

Just as IWIF is not a state agency, it is not a private insurer either. The complexity of IWIF's unique role sometimes makes it difficult to understand the organization. Unfortunately, it also makes IWIF an inviting target for some private insurers who covet IWIF's book of business but who lack the financial strength, commitment to Maryland, and legislative mandate to shoulder IWIF's special set of responsibilities.

FACT

By providing coverage at a fair market price, IWIF helps create a competitive environment in which private insurers are also motivated to keep their rates affordable as well. As a result, Maryland employers benefit from some of the most affordable workers' compensation insurance costs in the nation.

Because of IWIF's unique role, it is not always appropriate or accurate to compare IWIF to private insurers. One should not expect IWIF to behave exactly as its private competitors do. Nor is it wise to regulate IWIF in the same manner as a large private insurer. Again, here is why IWIF is different:

- Unlike private insurers, IWIF offers insurance to all that apply. IWIF can cancel a policy only if a policyholder fails to report payroll, fails to pay premium, refuses an audit, or requests cancellation. Private insurers choose whom they insure. IWIF cannot.
- Unlike private insurers, IWIF is charged with the specific responsibility of keeping workers' compensation insurance fairly priced. IWIF uses its considerable investment income, the result of nearly a century of prudent management, to contain its rates and to absorb a higher loss ratio than would otherwise be possible. By providing coverage at a fair market price, IWIF helps create a competitive environment in which private insurers are motivated to keep their rates affordable as well. As a result, Maryland employers benefit from some of the most affordable workers' compensation insurance costs in the nation.
- Unlike private insurers, who have a history of abandoning markets when the going gets tough, IWIF will never leave Maryland, even when market conditions are most unfavorable. Because of IWIF, Maryland employers are guaranteed a ready resource for workers' compensation insurance.

State funds are workers' compensation experts.

IWIF is a state fund, one of 25 state funds nationally. The effectiveness of state funds in supporting an affordable market for workers' compensation insurance is well documented. One need only look at the examples of Hawaii, Kentucky, Louisiana, Maine, Missouri, New Mexico, Rhode Island, and Texas. Within the past decade, following Maryland's lead, all of these states have created a state fund mechanism for providing workers' compensation insurance.

State funds were first created in response to the practice of private insurers abandoning business in certain states when conditions became difficult. When market conditions were favorable, private insurers willingly underwrote policies. However, when the insurance cycle turned negative with rising red ink, insurers abandoned policyholders, creating great difficulties for employers who by law are mandated to provide workers' compensation insurance. In fact, some state funds were established with the blessing of private insurance carriers because the presence of state funds freed private carriers to abandon a state when market conditions became too difficult.

Like other state funds, IWIF is a specialist in the field of workers' compensation, with all its efforts concentrated on elevating the services and operations of this one line of insurance. Due to its single focus on workers' compensation insurance, IWIF continues to expand the scope of services it provides policyholders. For example, while most private insurers do not have sufficient premium volume in a concentrated geographic area to warrant the expense of a comprehensive line of services, IWIF does. In Maryland alone, IWIF has as many loss control consultants working to help its policyholders prevent accidents as some insurance firms have for the entire East Coast. IWIF, like other state funds, excels in claims management and in providing prompt delivery of benefits to injured employees. IWIF also excels in managing the medical component of workers' compensation care through IWIF's COMPCare local network of health care providers. Instead of having to use a case manager in a distant city, as is the case with most private insurance companies, IWIF claimants have access to local case managers who know the capabilities of Maryland providers first-hand.

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When private insurers withdrew from Maryland, IWIF was there.

Within the past decade, IWIF has stepped forward repeatedly to fill the void created in the marketplace when private insurers declined to provide work-related coverage for our state's business community:

- From 1985 to 1994, the number of IWIF policyholders nearly tripled from 11,343 to more than 32,000 as private carriers declined to underwrite policies for Maryland businesses.
- In 1994, private insurers, through the National Council on Compensation Insurance, disbanded the assigned risk pool for United States Longshore and Harborworkers' (USL&H) coverage. IWIF officials and state legislators worked quickly and diligently to avert a crisis situation for approximately 150 Maryland businesses and the many people they employ. Without the decisive action of IWIF and key members of the General Assembly, these businesses would have had to relocate to other states or cease operations.
- In 1995, another situation occurred when private insurers discontinued providing Black Lung coverage for Western Maryland coal miners. Again, IWIF and state legislators acted quickly to avert the loss of jobs and businesses.
- In 2000, the State of Maryland received a notice of non-renewal from the private insurer that provided workers' compensation insurance for state employees working outside the state. Once again, IWIF stepped forward and provided a mechanism for the State of Maryland to obtain this coverage.

FACT

Within the past decade, IWIF has stepped forward repeatedly to fill the void created in the marketplace when private insurers declined to provide work-related coverage for our state's business community.

IWIF has been there, and will always be there, providing workers' compensation coverage for Maryland's business community as well as stability for the state's economy.

IWIF is on solid financial ground.

Although IWIF is a not-for-profit organization, we have managed our finances as prudently as any for-profit insurer. IWIF has shown – and continues to show – substantial accomplishment by almost every statistical measure.

- First, and perhaps most important, IWIF is on solid financial footing. The organization's \$1 billion in assets, accumulated through decades of sound management, is testimony to the prudence of IWIF's fiscal policies. Indeed, IWIF was recently ranked number one among all state funds in the nation in its investment performance during a recent 5-year period, achieving an annualized investment return that exceeded even the private insurance industry average. This investment performance was achieved within IWIF's strict standards for investment safety and quality.
- With the exception of one year in the mid-1980s, IWIF has achieved a net gain in each of the past 20 years. While these gains were sometimes made possible by income generated through capital gains, and not on the actual operations of the insurance business, IWIF has worked diligently to eliminate reliance on capital gains to bolster its bottom line. In 2000, for example, IWIF accomplished its objective to generate an operating gain without including the positive impact of investment gains. Further, this development is not temporary, but a measure of our sustained progress.

In managing to the standards of a private insurance company, IWIF has taken a very conservative financial posture. Unlike private sector, publicly traded insurance companies, however, IWIF does not have quarterly earnings forecasts or stock analyst expectations to meet. Instead, the IWIF Board of Directors has periodically declared a dividend to share operating gains with IWIF policyholders. For example, a \$10 million dividend was declared and paid to policyholders based on our 1997 operating results.

IWIF is financially positioned for the long term. While the insurance industry's results deteriorated rapidly in 1999 and 2000; by contrast, IWIF's financial results have become stronger.

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How IWIF's public mandate impacts our combined ratio.

One measure, often used to assess the relative financial health of an insurer, is called the “combined ratio.” This ratio measures an insurer’s efficiency in delivering its services, managing care, and preventing injuries. The combined ratio is the amount per dollar of premium that an insurer spends on benefit costs, expenses, and dividends.

While IWIF’s combined ratio in the past has exceeded the typical combined ratios of private insurers, there are ample reasons to explain this difference. IWIF must by law insure all that apply and must accept all risks – risks private insurers can and do avoid. High-risk employers, which may include everything from dockworkers to coal miners, are guaranteed coverage at IWIF. This is an essential reason for our existence. Yet these higher risks significantly increase IWIF’s combined ratio.

Moreover, IWIF has intentionally used its investment income to fund its operations and discount its rates. While this approach is based on a deliberate business strategy, it further inflates IWIF’s combined ratio. However, this strategy has allowed IWIF to keep Maryland’s workers’ compensation market competitive and affordable, thus encouraging economic growth in Maryland.

Prudent management requires us to enhance our financial performance constantly. Today, IWIF’s underwriting strategy is evolving to more closely resemble the private market, without abandoning our commitment to being accessible and affordable. Our goal is to produce both positive underwriting and operating results. Our loss control standards, claims practices, marketing initiatives, and underwriting acumen have all evolved in recent years to reduce our combined ratio.

FACT

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IWIF works. Just ask our customers.

Maryland business owners can secure workers' compensation coverage through self-insurance, private insurance carriers, or the Injured Workers' Insurance Fund. Of those Maryland businesses that choose not to self-insure, IWIF insures 20% – the largest single share of any insurance company in the state.

Despite its historical roots as an insurer to the residual market (those employers who are unable to secure private workers' compensation insurance), today IWIF is often the carrier of choice among Maryland employers, especially small – to medium-sized companies. For example, 65% of IWIF policyholders pay less than \$1,000 in individual annual premiums. One reason IWIF is so attractive to small businesses is our policy of providing discounts for good loss experience to policyholders paying as little as \$800 over three years. Private insurance carriers normally reserve this benefit only for larger businesses.

IWIF's strong and growing market share in Maryland is reflective of the quality and value IWIF provides its policyholders. For the past three years, IWIF has engaged an independent research firm to measure its performance to its customers and brokers. This research proves that IWIF is making tremendous strides.

In 1999, 88% of policyholders surveyed expressed satisfaction with IWIF's overall performance as their workers' compensation insurer. This represents a nearly 10% improvement in overall satisfaction compared to the 1997 survey. Similarly, overall satisfaction with IWIF among brokers has climbed from 72% in 1997 to 81% in 1999. Even more impressive is IWIF's record in retaining policyholders from year to year. Currently, IWIF is renewing almost 87% of its book of business, a figure that compares favorably with the best-run private insurance companies. Clearly, the changes IWIF has made in recent years to improve efficiency and customer services are paying dividends.

Does room for improvement exist? Always. Such surveys serve not only to confirm that IWIF is headed in the right direction, but they also provide guidance about areas in which IWIF must focus its efforts for continuous improvement.

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Injured workers know that IWIF is *there for them* and *fair to them*.

IWIF's goal has always been to help make Maryland a safer place to work. As Maryland's largest underwriter of workers' compensation insurance, insuring approximately 400,000 working Marylanders, IWIF is well positioned to make significant strides toward accomplishing that goal.

A vital part of IWIF's responsibility to Maryland employers and employees is assisting its policyholders with the implementation and maintenance of workplace safety initiatives. In fact, many policyholders choose to insure with IWIF precisely because of our commitment to safety.

Educational programs are a key component in IWIF's successful approach to reducing risks in the workplace. IWIF's loss control consultants visit more than 2,000 Maryland policyholders each year. Additionally, they conduct and participate in many safety workshops, policyholder seminars, and conferences. IWIF supports the efforts of its loss control department by preparing and distributing educational literature that assists policyholders and injured workers on all aspects of workers' compensation. In addition, IWIF conducts half-day workers' compensation seminars, free of charge, for its policyholders. These seminars are unique to the industry. As a result of these efforts, IWIF is proud to report that 88% of our policyholders reported no injuries in 1999.

FACT

IWIF is leading the fight in Maryland to reduce unnecessary costs resulting from fraud, while working to improve the care and services to those individuals with legitimate occupational injuries.

For those Marylanders who do become injured on the job, IWIF embraces the social and humanitarian principles of fair and equitable benefits for compensable injuries. IWIF created a *Guide for the Injured Worker* that is distributed to all claimants. This *industry-first* pamphlet educates the injured employees about their benefits and responsibilities.

No private workers' compensation carrier does more for Maryland's injured workers than IWIF. In fact, a major focus of the IWIF COMPrehensive Care program is to ensure that an injured worker receives the highest quality medical care in a timely manner. Our commitment is to provide the services, information, and benefits that make workers' compensation function the way it was intended to function.

As committed as we are to fair treatment of injured workers, we are equally committed to investigating and prosecuting workers' compensation fraud. That is why IWIF reviews *all claims* to ensure that fair and equitable compensation and benefits are provided to Maryland's injured workers. IWIF is leading the fight in Maryland to reduce unnecessary costs resulting from fraud, while working to improve the care and services to those individuals with legitimate occupational injuries.

The threat to put IWIF out of business...

Workers' compensation insurance, like many insurance lines, is a highly cyclical business. During good economic times, private insurers attempt to obtain as much business as possible, often employing "loss leader" pricing practices to gain market share. Later, if they fail to meet their financial benchmarks and objectives, they reverse course, withdrawing from the market and abandoning their policyholders. IWIF, with its fixed mandate to serve Maryland *only*, maintains a safety net of coverage for Maryland businesses, thus protecting them from the cyclical whims of private insurers.

The workers' compensation marketplace in Maryland is once again entering a downward cycle. Currently, financial results in the workers' compensation market are deteriorating dramatically. Many private carriers are now filing for large rate increases or refusing to renew their existing policyholders' coverage.

The private insurers, who historically have tolerated IWIF's unique role and contributions to Maryland, are growing increasingly active in their attempts to burden IWIF with additional restrictions to limit IWIF's competitiveness. In the most recent legislative session in Annapolis, lobbyists for the for-profit insurance industry were more visible and vocal than ever. In fact, one lobbyist expressed to IWIF's chief operating officer his intent to put IWIF "out of business." Why are private insurance companies feeling so threatened by IWIF's success? Because, at a time when their business is deteriorating, IWIF, through skilled management and a commitment to enhanced policyholder service, is posting increasingly better results.

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A dependable resource — yesterday, today and tomorrow!

When IWIF was established as the State Accident Fund in 1914, the goal was to ensure that all Maryland workers were insured against on-the-job injury. Today, IWIF is still the only guarantor of that promise. In a Maryland without IWIF, many businesses with employees in high-risk fields, new start-up businesses, and many small businesses would be saddled with – and in some cases collapse under the weight of – exorbitant workers' compensation insurance costs. Some businesses would cease to exist, simply because they couldn't find insurance at any price. Such an environment would threaten existing businesses and stifle the creation of new ones.

The justification for preserving a unique competitive position and role for IWIF is unassailable. IWIF ensures a stable market in which Maryland employers have guaranteed access to fairly priced workers' compensation insurance.

Accessibility. Affordability. Accountability. Since 1914, these have been the hallmarks of IWIF's service to Maryland. Ours is a heritage worthy of preserving for generations of Marylanders to come. *IWIF is different. Just as it should be.*

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